

| | |
|----------------------|---|
| Report title | Risk Appetite Statement 2024 - 2025 |
| Report author | Amanda Fahey |
| Department | Assistant Chief Executive / S151 Officer |
| Exempt | No |

Purpose of report:
To recommend to full Council.

Synopsis of report:
The Council’s Risk Appetite Statement is an important part of the risk management framework as it defines the risk the Council is willing to tolerate to achieve the priorities set out in its Corporate Business Plan. Alongside its overarching Risk Appetite Statement for 2024/25, a risk appetite position for each of its principal risk categories is proposed for consideration and approval.

Recommendation:
The overarching Risk Appetite Statement for 2024/25 and supporting risk appetite statements for each risk category, be agreed for recommendation to Full Council on 7th December 2023.

1. Context and background of report

- 1.1 The Council’s Risk Management Framework was recommended by this Committee for approval by Full Council on 19 October 2023.
- 1.2 Setting the Council’s risk appetite is an important part of the first step in the Framework: objective setting. The risk appetite defines the amount of risk the Council is willing to tolerate to achieve the priorities set out in the Corporate Business Plan. It is accepted that there is an element of risk in most activities that are undertaken. Effective and efficient risk governance and oversight provides assurance that the Council’s business activities will be positively enhanced by opportunities, but not adversely impacted by threats that could have been foreseen.
- 1.3 This report considers the overarching Risk Appetite Statement for the Council and seeks to develop a set of supporting risk appetite statements for each of its identified principal risk categories.

2. Report

- 2.1 The following text sets out the proposed overarching Risk Appetite Statement for 2024/25, drawn from the Risk Management Framework previously approved by Full Council.

“Risk Management is a continuously evolving process, whereby the Council constantly seeks to refine and improve process, in order to support the delivery of its objectives and take a proportionate approach to risk. Identifying its risk appetite enables the Council to take a balanced approach in respect of risk by understanding the risk levels it may tolerate, and therefore target its scarce resources at the management of risks that cannot be tolerated. Effective risk management supports informed decision-making through the determination of the nature and extent of the principal risk exposure of the Council and how much risk it is capable of absorbing to achieve its objectives.

It is often not possible to manage all risk to the most desirable level, but the setting of risk appetites means that risks can be managed to a tolerable level.

In addition to having an overarching risk appetite statement, the Council has developed statements to describe its attitude to accepting risk in each of its principal risk categories; recognising that risk appetite is not a single, fixed concept but that there will be a range of appetites for different risks and that these appetites may well vary over time. “

- 2.2 The remainder of the report sets out the approach to determining the supporting appetite statements for each risk category.
- 2.3 The Government’s [Orange Book: Management of Risk – Principles and Concepts](#) provides examples of risk categories that the Council has adopted as part of the approved Risk Management Framework. The thirteen risk categories are Strategy, Governance, Operations, Legal, Property, Financial, Commercial, People, Technology, Data and Information Management, Security, Project/Programme, and Reputational. The definition of each risk category is taken from the Orange Book and can be found in Appendix ‘A’ Column ‘Risk Definition’ and extracted below:

| Risk Category | Risk definition |
|---------------|--|
| Strategy | Strategy Risk: Risks arising from identifying and pursuing a strategy, which is poorly defined, is based on flawed or inaccurate data or fails to support the delivery of commitments, plans or objectives due to a changing macro-environment (e.g. political, economic, social, technological, environment and legislative change). |
| Governance | Governance Risk: Risks arising from unclear plans, priorities, authorities and accountabilities, and/or ineffective or disproportionate oversight of decision-making and/or performance. |
| Operations | Operations Risk: Risks arising from inadequate, poorly designed or ineffective/inefficient internal processes resulting in fraud, error, impaired customer service (quality and/or quantity of service), non-compliance and/or poor value for money. |
| Legal | Legal Risks: Risks arising from a defective transaction, a claim being made (including a defence to a claim or a counterclaim) or some other legal event occurring that results in a liability or other loss, or a failure to take appropriate measures to meet legal or regulatory requirements or to protect assets (for example, intellectual property). |

| Risk Category | Risk definition |
|---------------------------------|---|
| Property | Property Risks: Risks arising from property deficiencies or poorly designed or ineffective/inefficient safety management resulting in non-compliance and/or harm and suffering to employees, contractors, service users or the public. |
| Financial | Financial Risks: Risks arising from not managing finances in accordance with requirements and financial constraints resulting in poor returns from investments, failure to manage assets/liabilities or to obtain value for money from the resources deployed, and/or non-compliant financial reporting. |
| Commercial | Commercial Risks: Risks arising from weaknesses in the management of commercial partnerships, supply chains and contractual requirements, resulting in poor performance, inefficiency, poor value for money, fraud, and/or failure to meet business requirements/objectives. Includes risks associated with procurement of goods/works/services. |
| People | People Risks: Risks arising from ineffective leadership and engagement, suboptimal culture, inappropriate behaviours, the unavailability of sufficient capacity and capability, industrial action and/or non-compliance with relevant employment legislation/HR policies resulting in negative impact on performance. |
| Technology | Technology Risks: Risks arising from technology not delivering the expected services due to inadequate or deficient system/process development and performance or inadequate resilience. |
| Data and Information Management | Data and Information Management Risks: Risks arising from a failure to produce robust, suitable and appropriate data/information and to exploit data/information to its full potential. |
| Security | Security Risks: Risks arising from a failure to prevent unauthorised and/or inappropriate access to the estate and information, including cyber security and non-compliance with General Data Protection Regulation requirements. |
| Project/Programme | Project/Programme Risks: Risks that change programmes and projects are not aligned with strategic priorities and do not successfully and safely deliver requirements and intended benefits to time, cost and quality. |
| Reputational | Reputational Risks: Risks arising from adverse events, including ethical violations, a lack of sustainability, systemic or repeated failures or poor quality or a lack of innovation, leading to damages to reputation and or destruction of trust and relations. |

Table 1: Risk Category Definitions taken from the Government's [Orange Book: Management of Risk – Principles and Concepts](#)

- 2.4 For each category the risk appetite is identified on a scale described as Averse, Minimal, Cautious, Open or Eager. The [Orange Book's Risk Appetite Guidance Note](#) has been used to provide a description of each element of the risk appetite scale for each risk category to assist in allocating risk appetite to the category.
- 2.5 To assist the Committee in its consideration of the risk appetite statement for 2024/25, views were sought from the Chairs of Service Committees, the Corporate

Leadership Team and the Senior Leadership Team to assign a risk appetite for each risk category. Appendix 'A' summarises this position.

2.6 Consensus in risk appetite was reached from views of both groups consulted for the following five risk categories:

| Risk Category | Consensus risk appetite position |
|---------------|---|
| Strategy | CAUTIOUS: Guiding principles or rules in place that allow considered risk taking in organisational actions and the pursuit of priorities. Organisational strategy is refreshed at 3-4 year intervals |
| Governance | CAUTIOUS: Willing to consider actions where benefits outweigh risks. Processes, and oversight / monitoring arrangements enable cautious risk taking. Controls enable fraud prevention, detection and deterrence by maintaining appropriate controls and sanctions. |
| Operations | OPEN: Innovation supported, with clear demonstration of benefit / improvement in management control. Responsibility for non-critical decisions may be devolved. |
| Legal | CAUTIOUS: Want to be reasonably sure we would win any challenge. |
| Security | CAUTIOUS: Limited security risks accepted to support business need, with appropriate checks and balances in place |

Table 2: Risk categories where consensus was reached on risk appetite statements between consultees

2.7 Consensus was not reached for the following eight risk categories, although each position was close on the risk appetite scale:

| Risk Category | Member consultees: risk appetite position | Officer consultees: risk appetite position |
|---------------|--|---|
| Property | OPEN: Consider benefits of agreed solutions for purchase, rental, disposal, construction, and refurbishment that ensures meeting organisational requirements. | CAUTIOUS: Requirement to adopt a range of agreed solutions for purchase, rental, disposal, construction, and refurbishment that ensures producing good value for money. |
| Financial | CAUTIOUS TO OPEN: Moving to 'prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels.' | CAUTIOUS: Seek safe delivery options with little residual financial loss only if it could yield upside opportunities. |
| Commercial | Varies depending on the commercial requirement and market conditions. Minimal, Cautious and Open seen for different recent contract opportunities | CAUTIOUS: Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Management through leading indicators. |

| Risk Category | Member consultees: risk appetite position | Officer consultees: risk appetite position |
|---------------------------------|---|--|
| People | <p>OPEN: Prepared to invest in our people to create innovative mix of skills environment. Responsibility for noncritical decisions may be devolved.</p> <p>Noncritical decision-making may be currently cautious but want to move towards open as standard. Want to develop empowering culture and improve non-critical decision making.</p> | <p>CAUTIOUS TO OPEN: Want to move towards open but some aspects still cautious - 'Seek safe and standard people policy. Decision making authority generally held by senior management.'</p> |
| Technology | <p>OPEN: Systems / technology developments considered to enable improved delivery. Agile principles may be followed.</p> | <p>CAUTIOUS TO OPEN: Want to move towards open but some aspects still cautious - ' Consideration given to adoption of established / mature systems and technology improvements. Agile principles are considered.'</p> |
| Data and Information Management | <p>CAUTIOUS: Accept need for operational effectiveness with risk mitigated through careful management limiting distribution.</p> | <p>OPEN: Accept need for operational effectiveness in distribution and information sharing.</p> |
| Project/ Programme | <p>OPEN: Innovation supported, with demonstration of commensurate improvements in management control. Responsibility for noncritical decisions may be devolved. Plans aligned with functional standards and organisational governance.</p> | <p>CAUTIOUS: Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Plans aligned with strategic priorities, functional standards.</p> |
| Reputational | <p>OPEN: Appetite to take decisions with potential to expose organisation to additional scrutiny, but only where appropriate steps are taken to minimise exposure.</p> | <p>CAUTIOUS: Appetite for risk taking limited to those events where there is little chance of any significant repercussion for the organisation.</p> |

Table 3: Risk categories where consensus was not reached on risk appetite statements.

- 2.8 Whilst consensus was not reached for those risk categories in Table 3, the difference in approach was largely due to the current context in which the Council is operating, and the focus on the sector's governance and financial sustainability, as evidenced by the increasing reports of potential issuance of s114 reports, the tightening of regulatory frameworks and the establishment of the Office of Local Government (Oflog) a new performance body for local government. Some responses were based on where consultees wanted the organisation to be heading, or where they felt they had demonstrated risk appetite in the past, not necessarily on where the organisational appetite currently sits.
- 2.9 Approved risk appetite levels will form part of the risk assessment based on the risk category and specifically will be taken into account when scoring each risk and proposing proportionate risk mitigation and risk response.
- 2.10 Moving forward, the Council's risk appetite statement for the next financial year will be reviewed and set annually as part of annual business and budget planning to feed into the Council's budgetary and policy framework.

- 2.11 In addition to this framework, the capital and investment strategy will contain further details of financial risk appetite specifically for commercial and regeneration, portfolio and divestment opportunities. Risk assessments in these areas will need to refer specifically to risk appetite statements within the Capital and Investment Strategy.

3. Policy framework implications

- 3.1 Adopting Risk Appetite Statements supports delivery of the Corporate Business Plan 2022-2026 as follows:

Corporate Business Plan achievement

- Understanding the risk appetite that will be tolerated to deliver objectives.
- Increased probability of achieving strategic objectives: through minimising or removing key obstacles.

Organisational Development

- Improved awareness of risk: the Council can become less risk averse if risks are identified, assessed and mitigated.
- Improved corporate governance: through stronger, more transparent evidence-based decision making, accountability and prioritisation.
- Safeguard the organisation and provide assurance to all stakeholders such as elected members and residents.

- 3.2 Risk management is an integral part of corporate governance and is a principle in the Local Code of Corporate Governance (Principle F: Managing Risk). Setting risk appetite as an organisation is an important action to support effective risk management and was also an agreed response to the Council's recent work with CIPFA.

4. Resource implications

- 4.1 Failure to mitigate risks or take advantage of opportunities could result in financial loss to the Council.
- 4.2. Understanding the Council's risk appetite will support decision making when responding to and mitigating against risk.

5. Legal implications

- 5.1 The Council has a legal duty to have risk management arrangements in place, as stated in the Accounts & Audit Regulations 2015 (Part 2: Internal control - Responsibility for internal control):

“A relevant body must ensure that it has a sound system of internal control which:

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives.*
- (b) ensures that the financial and operational management of the authority is effective.*
- (c) includes effective arrangements for the management of risk.”*

The setting of Risk Appetite Statements is an important element of the Council's agreed Risk Management Framework, which supports delivery of this legal duty.

6. Equality implications

6.1 None arising directly from this report.

7. Environmental/Sustainability/Biodiversity implications

7.1 None arising directly from this report.

8. Other implications (where applicable)

8.1 Failure to regularly review and update the Risk Appetite Statements could have an adverse impact on the Council's Annual Governance Statement.

9. Timetable

9.1 The Council's risk appetite statement will be reviewed annually as part of annual business and budget planning to feed into the Council's budgetary and policy framework. The next review will therefore be brought back to this Committee in October/ November 2024 to be included in the MTFS report in December 2024.

10. Conclusions

10.1 The Committee is invited to agree the overarching Risk Appetite Statement for 2024/25 and the supporting Risk Appetite Statements for each of the categories of risk set out in the report, after consideration of the feedback received from each of the consultee groups, for onward recommendation to Full Council.

11. Background papers

[Annex 4: Example Risk Categories, The Orange Book Risk Appetite Guidance Note](#)

12. Appendices

Appendix 'A' Risk Appetite Statement